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Former Dewey Head's Payments Could Be Little

By JENNIFER SMITH

The leader many blame for the collapse of New York law firm Dewey & LeBoeuf LLP could end up paying little or nothing to settle claims related to the biggest law-firm failure in U.S. history.

Former Dewey Chairman Steven Davis has agreed to pay back about $511,000 in past compensation as part of a proposed settlement deal that would also allow creditors to tap into $19 million in insurance money. Creditors were owed hundreds of millions of dollars when the law firm went under last year.

But under the terms of the agreement, which needs court approval, Mr. Davis would be able to discharge his obligation entirely at the end of six years, even if he hasn't paid off the balance.

That is because the promissory note attached to the deal pegs Mr. Davis's contribution at 8% of his annual compensation until either the note is fully paid or the conclusion of the six years, whichever comes first. Interest would accrue at 9% annually.

As Dewey's leader, Mr. Davis earned about $2 million a year, according to former partners. But if Mr. Davis doesn't find steady or sufficiently lucrative employment going forward, he could walk away in 2019 owing at least 1.5 times the original sum he has pledged to pay back, according to a Wall Street Journal analysis of the deal.

For example, if after taxes Mr. Davis earned $100,000 a year during the repayment period, he would contribute a total of $48,000 to Dewey's liquidation trust over six years. But thanks to accrued interest, the balance would swell to more than $785,000 by March 2019. Mr. Davis would have to earn at least $1.4 million a year to pay off the debt within six years.

Mr. Davis's lawyer, Kevin Van Wart of Kirkland & Ellis LLP, declined to comment on the terms of the promissory note, saying "the matter is now before the court."

Legal and bankruptcy experts say Mr. Davis was able to extract such favorable terms because without his participation, the trustee winding down the New York firm's affairs wouldn't have been able to access the $19 million from an insurance policy Dewey held to defend against mismanagement claims.

"They had to find a balance that met the needs of the estate, the insurance company and Mr. Davis," said Wayne Weitz, a restructuring adviser and managing director at Gavin/Solmonese LLC in Wilmington, Del., who isn't involved in the matter.

In court papers filed this week, Dewey's liquidation trustee, Alan Jacobs of AMJ Advisors LLC, said the promissory note was structured based on a review of the former Dewey head's tax returns, bank statements and other financial records.

A onetime global enterprise with 1,400 lawyers, Dewey & LeBoeuf was toppled by a massive exodus of partners last year amid pay disputes and concerns about the firm's financial health. Laden with debt, the firm sought Chapter 11 protection on May 28.

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